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Talking Points for the DDI

19 June 1986

Update on the Libyan Economy

Libyan leader Qadhafi is facing increasing economic pressure as a result of the weak oil market and the confrontation with the United States. Without a sizable upturn in prices, Tripoli probably will have to make risky political decisions this year to balance import needs and foreign exchange earnings.

-- [redacted] while no one is starving, food lines are growing longer and more contentious as people search for basic staples. Hoarding has become a way of life for most and a thriving black market has evolved, despite government efforts to suppress such activity. 25X1

-- The quality of health care and education, hallmarks of Qadhafi's revolution, has fallen off sharply leading many Libyans to conclude that Qadhafi's economic policies are a failure.

-- [redacted] the regime may cut imports by half to conserve foreign exchange. Reductions of this magnitude almost certainly would hit both consumer goods and military equipment. [redacted] 25X1 25X1

US sanctions so far have had a limited impact on the Libyan economy.

-- Libya lost access to as much as $800 million of its then $6 billion in foreign exchange reserves.

-- US trade restrictions have hindered Libya's ability to obtain US seed which may cut yields of some vegetable crops such as onions and beans by as much as 15 percent this year. Moreover, delays in obtaining select equipment has slowed progress on some development projects such as the Great Man-made River scheme.

-- Reporting from several US embassies in Western Europe suggest the possibility of limited reductions in European imports of Libyan crude oil in response to recent US diplomatic initiatives. In addition, some European states have curtailed military sales to Libya and advised domestic firms against replacing departing US firms.

-- Some West European and Asian firms, however, have expanded their business activities in Libya since 7 January, especially in the oil sector. [redacted] 25X1 25X1

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Soft oil market conditions pose the greatest threat to the economy and probably the regime. Tripoli loses about $33 million per month for each one dollar decline in oil prices at an average export level of 1.0 million b/d. Conversely, at the current average price for Libyan crude of $14 per barrel, every 100,000-b/d drop in oil exports cost the regime $42 million per month.

-- Oil exports may exceed 1.1 million b/d this month, up from the 1.0 million b/d average since January. [redacted] 25X1
[redacted] the increase reflects efforts by US oil companies to purchase contractual amounts of Libyan oil before their mandated 30 June departure date. 25X1

-- The departure of US firms may cause a one-to-two month reduction of up to 200,000 b/d in crude oil exports until new markets are secured, but we do not anticipate any significant impact on short-term production capability.

-- Libya remains dependent on the technical expertise and experience of about 400 US oil workers many of whom probably will choose to stay in Libya because of poor employment opportunities elsewhere. [redacted] 25X1